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SUBJECT: 2003 INVESTMENT CLIMATE STATEMENT FOR TURKEY - PART IV

Ref: STATE 128494

The following is the last of four cables transmitting the 2003 Investment Climate Statement for Turkey:

¶14. LABOR

The Turkish labor force numbers around 20.2 million persons, with nearly 35 percent employed in agriculture. The official unemployment rate was 12.3 percent in the first quarter of 2003. Students are required to complete eight years of schooling and to remain in school until they are 15 years old. Turkey has an abundance of unskilled and semi-skilled labor. However, there is a shortage of qualified workers for highly automated high-tech industries. Individual high-tech firms, both local and foreign-owned, have generally conducted their own training programs for such job categories. Vocational training schools for some commercial and industrial skills exist in Turkey at the high school level. Apprenticeship programs, both formal and informal, remain in place, although they are dying out in some traditional occupations. Turkey's labor force has a reputation for being hardworking, productive and dependable.

Labor-management relations have been generally good in recent years. Employers are obliged by law to negotiate in good faith with unions that have been certified as bargaining agents. Strikes are usually of short duration and almost always peaceful. Since 1980 Turkey has faced criticism by the International Labor Organization (ILO), particularly for shortcomings in enforcement of ILO Convention 98 (right to organize and collective bargaining). In 2003, Parliament approved a Job Security Bill, which aims to ensure consultation between employers and labor groups in some areas while providing employers with greater flexibility in laying off staff.

The 1995 and 2001 constitutional amendments reduced restrictions on the right to strike to a certain degree and civil servants (defined broadly as all employees of the central government ministries, including teachers) are allowed to form trade unions and to engage in limited collective negotiations, but are prohibited from striking. A recent amendment to Free Zones Law No. 3218 rescinds the prohibition against the right to strike in these zones.

The GOT and the civil service unions will begin negotiations on a new two-year contract.

¶15. FOREIGN TRADE ZONES/FREE PORTS

Since passage of the Turkish law on free zones in 1985, 21 zones have been established. The zones are open to a wide range of activity, including manufacturing, storage, packaging, trading, banking, and insurance. Foreign products enter and leave the free zones without payment of any customs or duties. Income generated in the zones is exempt from corporate and individual income taxation and from the value-added tax, but firms are required to make social security contributions for their employees. Additionally, standardization regulations in Turkey do not apply to the activities in the free zones, unless the products are imported into Turkey. In contrast to most other free zones, sales to the Turkish domestic market are allowed.
Goods and revenues transported from the zones into Turkey are subject to all relevant import regulations. There are no restrictions on foreign firms operations in the free

zones. Indeed, the operator of one of Turkey's most successful free zones located in Izmir is an American firm.

¶16. FOREIGN DIRECT INVESTMENT STATISTICS

According to Turkish Treasury data, as of November 2002, there are 6,311 foreign firms invested and are operating in Turkey. The Turkish government has provided permits for foreign capital since 1980 amounting to USD 34.0 billion, and aggregate actual inflows reached USD 15.7 billion. In 2002, EU countries accounted for 63.6 percent of authorized new foreign investment, OECD countries accounted for 90.4 percent, and Islamic countries for 2.6 percent. Over the past two decades, France (16.6 percent) has been the top source of foreign investment, followed by the Netherlands (15.7 percent), Germany (12.7 percent) and the U.S. (11.6 percent) (Note: these figures are based on the amount of authorized investment, not on actual capital inflows). Because of the absence of a bilateral tax treaty until 1998, much U.S.-origin capital was invested in Turkey through third-country subsidiaries. By unofficial estimates the U.S. may be the largest source of foreign investment in Turkey.

In 2002, about 58.0 percent of authorized foreign investment took place in services, 39.8 percent in manufacturing, and about 2.2 percent in mining and agriculture combined. The sub-sectors with the greatest amount of authorized foreign investment include banking (10.3 percent);; trade (11.4 percent); food, beverage and tobacco processing (11.9 percent); and insurance (7.7 percent). Between 1980 and November 2002, 45.0 percent of actual capital inflows were invested in services, 52.0 percent in manufacturing, 2.0 percent in agriculture, and 1.0 percent in mining. The food industry, trade and finance sectors received the highest share of increased foreign direct investment permits in 2002.

FDI Inflow by Years (million USD)

Year	Actual Inflow	Inflow/GDP	No firms (Cumulative)
1980-1988	1,172		
1989	663	0.80	1,525
1990	684	0.67	1,856
1991	907	0.69	2,123
1992	911	0.78	2,330
1993	746	0.56	2,554
1994	636	0.64	2,830
1995	934	0.66	3,163
1996	914	0.53	3,582
1997	852	0.54	4,068
1998	953	0.49	4,533
1999	813	0.41	4,950
2000	1,707	0.85	5,328
2001	3,288	2.21	5,841
2002(*)	569	0.48	6,311
TOTAL	15,749		6,311

Source: General Directorate of Foreign Investment; (*) January through November 2002.

FDI Inflow by Source Country (1999-2002/ million USD)

Country	Cumulative Value	Share (percent)
Italy	1,968	30.9
Netherlands	962	15.1
U.S.A.	793	12.4
United Kingdom	647	10.1
Germany	514	8.1
Bahrain	323	5.1
Japan	267	4.2
France	263	4.1
Switzerland	104	1.6
Belgium-Luxemburg	25	0.4
Spain	23	0.4
Others	488	7.7
Total	6,377	100.0

Turkey's External Investment by Country (As of December 2002)

Country	Amount	Share
		(USD millions)
Netherlands	1,868.2	30.9
United Kingdom	523.1	8.9
Germany	532.7	8.8
Luxembourg	245.8	4.1
Russia	163.7	2.7
Azerbaijan	741.8	12.3
Kazakhstan	431.5	7.1
United States	192.6	3.2
Romania	122.7	2.0
Others	1,218.6	20.1
	6,040.8	100.0

Source: General Directorate of Banking and Foreign Exchange, Treasury

Major foreign investors

Turkey's largest foreign investors include Telecom Italia, Renault, Toyota, Fiat, Castrol, Enron Power, Citibank, Pirelli Tire, Unilever, RJR Nabisco, Philip Morris, United Defense, Honda, Hyundai, Bosch, Siemens, DaimlerChrysler, Chase Manhattan, AEG, Bridgestone-Firestone, Cargill, Novartis, Coca Cola, Colgate-Palmolive, General Electric, General Motors-Opel, ITT, Ford Motor Co., Lockheed Martin, Gillette, Goodyear, Hilton International, Aventis, McDonald's, Nestle, Mobil, Pepsi, Pfizer, Procter and Gamble, InterGen, Abbot Laboratories, Aria and Shell.

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